

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Emmet County Road Commission	County Emmet
Fiscal Year End December 31, 2006	Opinion Date May 4, 2007	Date Audit Report Submitted to State May 14, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

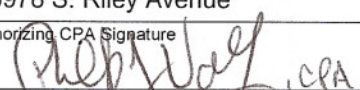
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**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Co., PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature 	Printed Name Phillip J. Wolf	License Number 1101017275	

**EMMET COUNTY ROAD COMMISSION**

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BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2006

**EMMET COUNTY ROAD COMMISSION**

**BOARD OF COUNTY ROAD COMMISSIONERS**

Leroy Sumner  
Vice - Chairman

Frank Zulski, Jr.  
Chairman

K. Frederick Hoffmann D.D.S.  
Member

Brian A. Gutowski, P.E.  
Engineer - Manager

Judy Fouch  
Clerk

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Board of County Road Commissioners  
Emmet County Road Commission  
2265 E. Hathaway Road  
Harbor Springs, Michigan 49740

We have audited the accompanying financial statements of the governmental activities and major fund of the Emmet County Road Commission (a component unit of the County of Emmet, Michigan) as of and for the year ended December 31, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Emmet County Road Commission as of December 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2007 on our consideration of the Emmet County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Emmet County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

May 4, 2007

## **Management's Discussion and Analysis**

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**Using This Annual Report**

The Emmet County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

**Reporting the Road Commission as a Whole**

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

**Reporting the Road Commission's Major Fund**

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 26 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.



**The Road Commission as a Whole**

The road commission's net assets increased approximately 20.21% from \$8.34 million to \$10.03 million for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, decreased \$624 thousand. The primary reason for the decrease was transportation and maintenance funds. Also, it is important for the reader to realize that the increase in capital assets is largely a result of road commission infrastructure assets.

Net assets as of the years ended December 31, 2006 and 2005 are as follows:

	Governmental Activities	
	2006	2005
Current and Other Assets	\$ 1,704,431	\$ 2,350,564
Capital Assets	<u>11,646,775</u>	<u>9,629,769</u>
Total Assets	<u>\$ 13,351,206</u>	<u>\$ 11,980,333</u>
Current Liabilities	\$ 855,292	\$ 849,026
Other Liabilities	<u>2,467,841</u>	<u>2,789,044</u>
Total Liabilities	<u>3,323,133</u>	<u>3,638,070</u>
Net Assets:		
Invested in Capital Assets – net of debt	9,079,305	6,769,057
Restricted for County Road	<u>948,768</u>	<u>1,573,206</u>
Total Net Assets	<u>\$ 10,028,073</u>	<u>\$ 8,342,263</u>

A summary of changes in net assets for the years ended December 31, 2006 and 2005 are as follows:

	Governmental Activities	
	2006	2005
Program Revenues:		
Charges for Services	\$ 686,357	\$ 1,237,326
Operating Grants and Contributions	3,729,868	3,766,432
Capital Grants and Contributions	2,282,843	2,503,274
General Revenues:		
County Appropriations	32,540	-
Interest Earnings	34,852	13,689
Gain on Disposal of Equipment	94,538	309
Total Revenues	6,860,998	7,521,030
Program Expenses:		
Primary Roads:		
Maintenance	1,453,369	1,635,172
Local Roads:		
Maintenance	1,934,470	1,678,545
State Trunkline:		
Maintenance	612,284	708,672
Nonmaintenance	3,523	24,822
Equipment Expense	365,048	209,980
Administrative	424,107	410,800
Other	278,077	166,434
Interest	104,310	74,052
Total Expenses	5,175,188	4,908,477
Changes in Net Assets	1,685,810	2,612,553
Beginning, Net Assets	8,342,263	5,729,710
Ending, Net Assets	\$ 10,028,073	\$ 8,342,263

**The Road Commission's Fund**

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2006, the fund balance of the general operations fund decreased \$624,453 as compared to an increase of \$371,560 in the fund balance for the year ended December 31, 2005. Total revenues were \$6,860,998, a decrease of \$1,378,392 as compared to last year. This change in revenues resulted primarily from a decrease in state funding and installment proceeds.

Total expenditures were \$7,485,451, a decrease of \$382,379 as compared to last year. This change in expenditures is primarily the decrease in primary road preservation costs and state maintenance in the current year. The road commission incurred capital outlays due to equipment purchases.

**Budgetary Highlights**

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2006 was lower than the actual receipts by \$243,143. This was due, in part, to the projection of appropriations and township contributions.

Road Commission expenditures were projected at \$7,403,625 while actual expenditures were \$7,485,451. This resulted in total expenditures over budget by \$81,826. The largest shares of the variance are in the local road maintenance and equipment expense line items.

**Capital Asset and Debt Administration****Capital Assets**

As of December 31, 2006 and 2005 the Road Commission had invested in capital assets as follows:

	<u>2006</u>	<u>2005</u>
Capital Assets Not Being Depreciated		
Construction in Progress	\$ -	\$ 88,306
Land and Improvements	<u>2,515,346</u>	<u>1,997,340</u>
Total Capital Assets Not Being Depreciated	<u>2,515,346</u>	<u>2,085,646</u>
Other Capital Assets		
Buildings and Improvements	4,532,188	4,532,188
Road Equipment	7,240,167	6,513,668
Other Equipment	705,153	697,914
Infrastructure and Improvements	<u>4,543,446</u>	<u>3,009,708</u>
Total Capital Assets at Historic Cost	<u>17,020,954</u>	<u>14,753,478</u>
Total Accumulated Depreciation	<u>(7,889,525)</u>	<u>(7,209,355)</u>
Total Net Capital Assets	<u>\$ 11,646,775</u>	<u>\$ 9,629,769</u>
Current year's major additions included the following:		
Improvements	\$ -	\$ 13,620
Various Resurfacing Projects	<u>\$ 2,051,744</u>	<u>\$ 2,953,663</u>
Trucks/Equipment	<u>\$ 854,370</u>	<u>\$ 362,248</u>

**Debt**

The Road Commission has long-term debt obligations in the amount of \$2,467,841. The Commission utilized the remaining bond funds for equipment purchases. Debt payments are indicated in Note 9 of the "Notes to Financial Statements" section.

**Economic Factors and Next Year's Budget**

The board of county road commissioner's considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The road commission derives approximately 74% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Emmet County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Emmet County.

**Contacting the Road Commission's Financial Management**

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Emmet County Road Commission administrative offices at 2265 E. Hathaway Road, Harbor Springs, Michigan.

## **Basic Financial Statements**

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# Emmet County Road Commission

## Statement of Net Assets December 31, 2006

### **ASSETS**

Cash and Equivalents	\$ 428,745
Accounts Receivable:	
Michigan Transportation Fund	552,806
State – Trunkline Maintenance	93,291
State – Other	53,061
Due on County Road Agreements	61,892
Sundry Accounts	30,077
Inventories:	
Road Materials	337,985
Equipment, Parts and Materials	146,574
Capital Assets (Net of Accumulated Depreciation)	
Nondepreciable	2,515,346
Depreciable	<u>9,131,429</u>
Total Assets	<u>\$ 13,351,206</u>

### **LIABILITIES**

Current Liabilities:	
Accounts Payable	\$ 64,268
Accrued Liabilities	23,520
Advances from State	224,635
Deferred Revenue	222,240
Interest Payable	7,176
Escrow Payable	10,033
Installment Purchase Agreements Payable	154,755
Bonds Payable	148,665
Noncurrent Liabilities:	
Vested Employee Benefits	210,967
Installment Purchase Agreements' Payable	472,020
Bonds Payable	<u>1,784,854</u>
Total Liabilities	<u>3,323,133</u>

### **NET ASSETS**

Investment in Capital Assets -	
Net of Related Debt	9,079,305
Restricted for County Road	<u>948,768</u>
Total Net Assets	<u>\$ 10,028,073</u>

The Notes to Financial Statements are an integral part of this statement.

# Emmet County Road Commission

## Statement of Activities For the Year Ended December 31, 2006

### Program Expenses:

Primary Road Maintenance and Preventive Maintenance	\$ 1,453,369
Local Road Maintenance and Preventive Maintenance	1,934,470
State Trunkline Maintenance	615,807
Net Equipment Expense	365,048
Net Administrative Expense	424,107
Other	278,077
Interest Expense	<u>104,310</u>

Total Program Expenses	<u>5,175,188</u>
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### Program Revenues:

Charges for Services:	
License and Permits	33,695
Charges for Services	652,662
Operating Grants and Contributions:	
Michigan Transportation Funds	3,729,868
Investment Earnings	34,852
Capital Grants and Contributions:	
Federal Grants	182,888
State Grants	62,457
Contributions from Local Units	1,924,444
Contributions from Private Sources	<u>113,054</u>

Total Program Revenues	<u>6,733,920</u>
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Net Program Revenues (Expenses)	<u>1,558,732</u>
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### General Revenues:

County Appropriation	32,540
Gain on Equipment Disposal	<u>94,538</u>

Total General Revenues	<u>127,078</u>
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Changes in Net Assets	1,685,810
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Net Assets – Beginning of Year	<u>8,342,263</u>
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Net Assets – End of Year	<u>\$ 10,028,073</u>
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The Notes to Financial Statements are an integral part of this statement.



# Emmet County Road Commission

## Balance Sheet December 31, 2006

	Governmental Fund Type General Operating Fund
<b><u>ASSETS</u></b>	
Cash and Equivalents	\$ 428,745
Accounts Receivable:	
Michigan Transportation Fund	552,806
State Trunkline Maintenance	93,291
State – Other	53,061
Due on County Road Agreements	61,892
Sundry Accounts	30,077
Inventories:	
Road Materials	337,985
Equipment, Parts, and Materials	<u>146,574</u>
Total Assets	<u>\$ 1,704,431</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities:	
Accounts Payable	\$ 64,268
Accrued Liabilities	23,520
Escrow Payable	10,033
Advances from State	224,635
Deferred Revenue	<u>222,240</u>
Total Liabilities	<u>544,696</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>1,159,735</u>
Total Fund Equities	<u>1,159,735</u>
Total Liabilities and Fund Equities	<u>\$ 1,704,431</u>

The Notes to Financial Statements are an integral part of this statement.

**Reconciliation of the Balance Sheet Fund  
Balance to the Statement of Net Assets  
For the Year Ended December 31, 2006**

Total Governmental Fund Balance	\$ 1,159,735
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	11,646,775
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	(2,771,261)
Interest accrued on long term debt obligations payable in current period.	<u>(7,176)</u>
Net Assets of Governmental Activities	<u>\$ 10,028,073</u>

**Emmet County Road Commission****Statement of Revenues, Expenditures, and  
Changes in Fund Balance  
For the Year Ended December 31, 2006**

	<u>General Operating Fund</u>
Revenues:	
License and Permits	\$ 33,695
Federal Sources	182,888
State Sources	3,792,325
Contributions from Local Units	1,924,444
Charges for Services	652,662
Interest and Rents	34,852
Other Revenue	207,592
Other Financing Sources	<u>32,540</u>
Total Revenues	<u>6,860,998</u>
Expenditures	
Public Works	6,756,239
Capital Outlay	331,660
Debt Service	<u>397,552</u>
Total Expenditures	<u>7,485,451</u>
Excess of Revenues Over (Under) Expenditures	(624,453)
Fund Balance – January 1, 2006	<u>1,784,188</u>
Fund Balance – December 31, 2006	<u>\$ 1,159,735</u>

The Notes to Financial Statements are an integral part of this statement.

## Emmet County Road Commission

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### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2006

Net Change in Fund Balance – Total Governmental Funds	\$ (624,453)
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Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	2,017,006
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Repayment of notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. Proceeds from issuance is a financing source in governmental funds.	293,242
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Expenditures which are not considered incurred under modified accrual, but are recognized as expenses in the year.	<u>15</u>
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Change in Net Assets of Governmental Activities	<u><u>\$ 1,685,810</u></u>
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## **Notes to Financial Statements**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Emmet County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Emmet County Road Commission.

**A. Reporting Entity**

The Emmet County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by 39, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Emmet County Road Commission, a discretely presented component unit of Emmet County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Emmet County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The Commission has one major fund, the general operating fund.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

**D. Assets, Liabilities, and Net Assets or Equity****Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are stated at cost.

**Inventories**

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Emmet County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Emmet County Road Commission has capitalized current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Land Improvements	5 to 30 years
Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Compensated Absences (Vacation and Sick Leave)

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested vacation leave upon death, retirement or resignation. Sick leave vests upon death or retirement, limited to 50% of their total accumulated sick time up to a maximum of 50 days.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Commission violated provisions of the Act for the construction line item as indicated on page 26.

The Road Commission's Chief Administrative Officer (manager) and Clerk prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Clerk to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgets lapse at fiscal year end.

**NOTE 3 - CASH AND DEPOSITS**

The cash and investments are classified into the following categories:

Petty Cash	\$	300
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)		5,697
Money Markets		<u>422,748</u>
Total Cash	\$	<u><u>428,745</u></u>

**NOTE 3 - CASH AND DEPOSITS (Continued)**

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

*Interest rate risk.* The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

*Custodial investment credit risk.* Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission invests with the County of Emmet and would receive its proportional share of holdings. Of the Commission's \$422,748, 100% of the amount is in the name of the agent. Money market funds were unrated.

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$47,948 of the Commission's bank balance of \$224,250 was exposed to credit risk because it was uninsured and uncollateralized. Other cash balances that are pooled with the County of Emmet funds and would receive a proportional share of insurance.

**NOTE 4 - DEFERRED COMPENSATION PLAN**

The Emmet County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Emmet County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Emmet County Road Commission's financial statements.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity of the Emmet County Road Commission for the current year was as follows:

	Beginning Balances 01/01/06	Additions	Adjustments/ Deductions	Ending Balances 12/31/06
<i>Capital Assets Not Being Depreciated</i>				
Land and Improvements	\$ 37,094	\$ -	\$ -	\$ 37,094
Infrastructure Improvements	1,960,246	518,006	-	2,478,252
Construction in Progress	88,306	-	88,306	-
Subtotal	2,085,646	518,006	88,306	2,515,346
<i>Capital Assets Being Depreciated</i>				
Land Improvements	878,554	-	-	878,554
Buildings	3,653,634	-	-	3,653,634
Road Equipment	6,513,668	847,131	120,632	7,240,167
Shop Equipment	198,385	4,250	-	202,635
Office Equipment	109,989	2,989	-	112,978
Engineers' Equipment	64,133	-	-	64,133
Yard and Storage	193,606	-	-	193,606
Depletable Assets	131,801	-	-	131,801
Infrastructure	3,009,708	1,533,738	-	4,543,446
Subtotal	14,753,478	2,388,108	120,632	17,020,954
<i>Less Accumulated Depreciation</i>				
Land Improvements	7,120	6,979	-	14,099
Buildings	899,130	90,423	-	989,553
Road Equipment	5,555,392	410,151	120,632	5,844,911
Shop Equipment	179,533	9,582	-	189,115
Office Equipment	98,317	4,187	-	102,504
Engineers' Equipment	59,409	1,438	-	60,847
Yard and Storage	144,009	16,195	-	160,204
Depletable Assets	63,621	-	-	63,621
Infrastructure	202,824	261,847	-	464,671
Subtotal	7,209,355	800,802	120,632	7,889,525
Net Capital Assets Being Depreciated	7,544,123	1,587,306	-	9,131,429
Total Net Capital Assets	\$ 9,629,769	\$ 2,105,312	\$ 88,306	\$ 11,646,775

**NOTE 5 - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to programs of the Emmet County Road Commission as follows:

Equipment Expense	527,895
Administrative	11,060
Unallocated - Infrastructure	<u>261,847</u>
Total Depreciation Expense	<u>\$ 800,802</u>

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT**
Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

**Plan Description** – The Emmet County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

**Funding Policy** – The obligation to contribute and maintain the system for these employees was established by negotiation with the Emmet County Road Commission's competitive bargaining units and requires a contribution from the employees of 1.1% percent of gross wages for County Road Commission.

**Annual Pension Costs** – For year ended 2006, the Emmet County Road Commission's annual pension cost of \$274,724 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of 2004, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31st is as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial Value of Assets	\$ 7,794,682	\$ 7,863,505	\$ 7,946,016
Actuarial Accrued Liability	10,334,532	10,793,022	11,218,247
Unfunded AAL	2,539,850	2,929,517	3,272,231
Funded Ratio	75%	73%	71%
Covered Payroll	798,875	833,587	776,507
UAAL as a Percentage of Covered Payroll	318%	351%	421%

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)**

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 159,190	100%	0
2004	198,707	100%	0
2005	244,039	100%	0

**Defined Contribution Pension Plan**

The Emmet County Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the County Road Commission contributes 10% percent of employees' gross earnings and employee contributions for each employee (plus interest allocated to the employee's account) are fully vested. Eligible employees are required to contribute 2% of their earnings.

The Emmet County Road Commission's total payroll during the current year was \$1,836,852. The current year contribution was calculated based on covered payroll of \$1,005,100, resulting in an employer contribution of \$100,510 and employee contributions of \$20,102.

**NOTE 7 - FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2006, the federal aid received and expended by the Road Commission was \$129,827 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commission performs the work and would be subject to single audit requirements if they expended \$500,000 or more.

**NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE**

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

**NOTE 9 - LONG-TERM DEBT**

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>01/01/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/06</u>	<u>Due Within One Year</u>
Installment payable, secured by equipment, payable in monthly installments of \$14,672 including interest of 3.83%.	\$ 775,724	\$ -	\$ 148,949	\$ 626,775	\$ 154,755
\$2,417,155 Bonds payable to Emmet County Building Authority, 14 years including sliding scale interest rate of 2.4% to 4.25%, maturing in 2017.	<u>2,077,812</u>	<u>-</u>	<u>144,293</u>	<u>1,933,519</u>	148,665
Subtotal	2,853,536	-	293,242	2,560,294	
Vested Employee Benefits	<u>210,982</u>	<u>- (1)</u>	<u>15</u>	<u>210,967</u>	
Total Long-Term Debt	<u>\$ 3,064,518</u>	<u>\$ -</u>	<u>\$ 293,257</u>	<u>\$ 2,771,261</u>	

(1) net decrease

Notes Payable:	<u>Bonds Payable</u>		<u>Installment Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 148,665	\$ 74,080	\$ 154,755	\$ 21,308
2008	153,038	70,495	160,788	15,275
2009	130,300	66,953	167,055	9,008
2010	142,544	63,009	144,177	2,542
2011	155,661	58,163	-	-
2012-2016	966,321	179,321	-	-
2017	<u>236,990</u>	<u>5,925</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,933,519</u>	<u>\$ 517,946</u>	<u>\$ 626,775</u>	<u>\$ 48,133</u>

**NOTE 10 - POST EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 6, the County Road Commission provides post-employment health care benefits to all retired employees and/or their spouse. The benefit includes the provision that a retiree pays 100% of the cost of the premium. The Commission remitted \$44,329 for post employment benefits during 2006 for twelve participants.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2006.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

**NOTE 12 - SUBSEQUENT EVENTS**

Equipment Purchases – During January 2007, the Commission executed purchase orders for the acquisition of equipment in the amount of \$91,360.

## **Required Supplementary Information**

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**Emmet County Road Commission****Required Supplementary Information  
Budgetary Comparison Schedule  
Statement of Revenues  
For the Year Ended December 31, 2006**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits				
Permits	\$ 45,000	\$ 30,800	\$ 33,695	\$ 2,895
Federal Sources				
Surface Transportation Program	265,000	182,622	182,888	266
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	3,530,000	3,269,892	3,459,216	189,324
Urban	110,000	118,122	118,604	482
Snow Removal	140,000	142,048	142,048	-
Economic Development Fund				
Rural Primary (D)	69,000	32,457	32,457	-
Forest Road (E)	63,700	30,000	30,000	-
Contributions from Local Units				
Townships	1,700,000	1,920,207	1,923,864	3,657
Other	-	580	580	-
Charges for Services				
State Trunkline				
Maintenance	670,000	638,600	648,393	9,793
Nonmaintenance	30,000	3,523	3,523	-
Salvage Sales	-	746	746	-
Interest and Rents	10,000	31,500	34,852	3,352
Other Revenue				
Other	5,000	79,096	113,054	33,958
Gain on Equipment Disposal	20,000	95,122	94,538	(584)
Other Financing Sources				
County Appropriation	-	32,540	32,540	-
Total	<u>\$ 6,667,700</u>	<u>\$ 6,617,855</u>	<u>\$ 6,860,998</u>	<u>\$ 243,143</u>

**Emmet County Road Commission****Required Supplementary Information  
Budgetary Comparison Schedule  
Statement of Expenditures  
For the Year Ended December 31, 2006**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road				
Preservation	\$ 500,000	\$ 520,000	\$ 520,345	\$ (345)
Maintenance	1,450,000	1,425,000	1,362,724	62,276
Local Road				
Construction	-	9,500	9,819	(319)
Preservation	1,800,000	1,610,000	1,571,875	38,125
Maintenance	1,500,000	1,800,000	1,886,514	(86,514)
State Trunkline				
Maintenance	670,000	622,500	612,284	10,216
Nonmaintenance	30,000	3,523	3,523	-
Equipment Expense – Net	150,000	177,000	365,048	(188,048)
Administrative Expense – Net	380,000	434,000	424,107	9,893
Capital Outlay – Net	800,000	404,550	331,660	72,890
Debt Service				
Principal	163,000	293,242	293,242	-
Interest	<u>61,000</u>	<u>104,310</u>	<u>104,310</u>	<u>-</u>
Total Expenditures	7,504,000	7,403,625	<u>\$ 7,485,451</u>	<u>\$ (81,826)</u>
Fund Balance – January 1, 2006	<u>1,784,188</u>	<u>1,784,188</u>		
Total Budget	<u>\$ 9,288,188</u>	<u>\$ 9,187,813</u>		

## **Other Supplementary Information**

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## Emmet County Road Commission

### Analysis of Changes in Fund Balances For the Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,667,952	\$ 3,362,890	\$ 830,156	\$ 6,860,998
Total Expenditures	<u>2,126,381</u>	<u>3,930,855</u>	<u>1,428,215</u>	<u>7,485,451</u>
Excess of Revenues Over (Under) Expenditures	541,571	(567,965)	(598,059)	(624,453)
Optional Transfers	(567,965)	567,965	-	-
Fund Balance – January 1, 2006	<u>414,359</u>	<u>-</u>	<u>1,369,829</u>	<u>1,784,188</u>
Fund Balance – December 31, 2006	<u>\$ 387,965</u>	<u>\$ -</u>	<u>\$ 771,770</u>	<u>\$ 1,159,735</u>

**Emmet County Road Commission****Analysis of Revenues  
For the Year Ended December 31, 2006**

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ 33,695	\$ -	\$ 33,695
Federal Sources				
Surface Transportation Program	182,888	-	-	182,888
State Sources				
Michigan Transportation Fund				
Engineering	6,472	3,528	-	10,000
Allocation	2,238,671	1,220,545	-	3,459,216
Urban	84,556	34,048	-	118,604
Snow Removal	-	142,048	-	142,048
Economic Development Fund				
Rural Primary (D)	32,457	-	-	32,457
Forest Road (E)	15,000	15,000	-	30,000
Contributions from Local Units				
Townships	94,804	1,829,060	-	1,923,864
Other	-	-	580	580
Charges for Services				
State Trunkline				
Maintenance	-	-	648,393	648,393
Nonmaintenance	-	-	3,523	3,523
Salvage Sales	-	-	746	746
Interest and Rents	4,176	-	30,676	34,852
Other Revenue				
Other	7,500	84,966	20,588	113,054
Gain on Disposals	1,428	-	93,110	94,538
Other Financing Sources				
County Appropriation	-	-	32,540	32,540
Total Revenue	<u>\$ 2,667,952</u>	<u>\$ 3,362,890</u>	<u>\$ 830,156</u>	<u>\$ 6,860,998</u>

## Emmet County Road Commission

### Analysis of Expenditures For the Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	\$ 520,345	\$ -	\$ -	\$ 520,345
Maintenance	1,362,724	-	-	1,362,724
Local Road				
Construction	-	9,819	-	9,819
Preservation	-	1,571,875	-	1,571,875
Maintenance	-	1,886,514	-	1,886,514
State Trunkline Maintenance	-	-	612,284	612,284
State Trunkline Nonmaintenance	-	-	3,523	3,523
Equipment Expense – Net	114,954	187,780	62,314	365,048
Administrative Expense – Net	149,240	274,867	-	424,107
Capital Outlay – Net	(20,882)	-	352,542	331,660
Debt Service				
Debt Principal Payments	-	-	293,242	293,242
Interest Expense	-	-	104,310	104,310
Total Expenditures	<u>\$ 2,126,381</u>	<u>\$ 3,930,855</u>	<u>\$ 1,428,215</u>	<u>\$ 7,485,451</u>

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners  
Emmet County Road Commission  
2265 E. Hathaway Road  
Harbor Springs, Michigan 49740

We have audited the financial statements of the governmental activities and major fund of the Emmet County Road Commission, as of and for the year ended December 31, 2006, and have issued our report thereon, dated May 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Emmet County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.



Board of County Road Commissioners  
Emmet County Road Commission

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Emmet County Road Commission financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Emmet County Road Commission in a separate letter dated May 4, 2007.

This report is intended solely for the information and use of management, Board of County Road Commissioners, others within the Commission, and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

May 4, 2007

**Emmet County Road Commission****Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2006**

<b>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Project</b>	<b>Federal Expenditures</b>
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>				
Pass-Through Programs From:				
Michigan Department of Transportation (Note 7):				
West Conway Road from US 31	20.205	STP 0624 (007)	58325	\$ 69,398
West Conway Road from M-119	20.205	STP 0624 (010)	28326	<u>60,429</u>
Subtotal – U.S. Department of Transportation				<u>129,827</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>				
Pass-through from the State of Michigan Department of State Police (MSP):				
FEMA Hazard Mitigation Grant	97.039	FEMA-1413-DR-MI	-	<u>53,061</u>
Subtotal – U.S. Department of Homeland Security				<u>53,061</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u><u>\$ 182,888</u></u>



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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KENNETH A. TALSMA, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

Members of the Board of Commissioners  
Emmet County Road Commission  
Harbor Springs, MI 49740

We have audited the financial statements of the Emmet County Road Commission for the year ended December 31, 2006, and have issued our reports thereon dated May 4, 2007. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities for the financial reporting process for which management is responsible.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Emmet County Road Commission. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Emmet County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Emmet County Road Commission are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Emmet County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability. State maintenance liabilities and estimated useful lives are examples.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Emmet County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Emmet County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Emmet County Road Commission's financial reporting process.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Emmet County Road Commission or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Emmet County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

### **Comments and Recommendations**

#### **Excess Expenditures Over Appropriations**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County Road's actual expenditures were in excess of amounts appropriated for certain line items as indicated on the Statement of Expenditures – Budget and Actual.

#### **Bank Account**

During fiscal 2005, the Commission approved a new bank account which may not meet the guidelines for allowed investments of the Commission. The loan savings account is a "business" savings, which sometimes do not qualify as an allowed investment. The Commission should contact the account holder and determine if the account qualifies as an allowed public money fund savings account.

Status: Corrected

#### **Infrastructure**

During 2006, a revised "Bulletin for County Road Commissions" was issued by the Michigan Department of Treasury. The Bulletin revised the requirements for capitalization of chip sealing and other road surfaces. The Commission should remove infrastructure assets which do not meet the revised criteria for road capitalization.

### **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Emmet County Road Commission, the cognizant audit agencies and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

May 4, 2007